

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 03457 01 OF 03 061941Z

63

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

FEA-01 ERDA-05 AID-05 CEA-01 CIEP-01 COME-00 EB-07

FPC-01 INT-05 OMB-01 SAM-01 OES-03 STR-01 TRSE-00

FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 NEA-09 /116 W

----- 054022

R 061926Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8992

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY TOKYO

AMEMBASSY BERN

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 01 OF 03 LONDON 03457

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: HAROLD LEVER ON OIL PRICE INCREASE AND U.K.

ECONOMY; EUROMARKET TRENDS

SUMMARY: SPEAKING TO INTERNATIONAL FINANCIAL COMMUNITY,  
CHANCELLOR OF DUCHY OF LANCASTER, HAROLD LEVER, PRAISED  
U.S. INITIATIVES AIMED AT CONSUMER SOLIDARITY, TRIED TO  
REASSURE INTERNATIONAL FINANCIAL AUDIENCE ON OUTLOOK FOR  
U.K. ECONOMY, ROLE OF PRIVATE INDUSTRY IN IT, AND VALIDITY  
OF SOCIAL CONTRACT. HE CITED NEED FOR INVESTMENT AND  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 03457 01 OF 03 061941Z

STRESSED OUTLOOK OF CONTINUING INFLATION. END SUMMARY.

BEGIN UNCLASSIFIED. 1. SPEAKING BEFORE FINANCIAL TIMES CONFERENCE ON EUROMARKETS IN 1975, LEVER MADE FOLLOWING MAIN POINTS: HE WELCOMED THE NEW APPROACH TO THE OIL/MONEY PROBLEM WHICH DR. KISSINGER OUTLINED IN HIS SPEECH OF 3 FEBRUARY. THE AMERICANS HAVE ALWAYS BEEN RIGHT TO EMPHASIZE THAT SOLIDARITY AMONG THE OIL CONSUMERS IS A PRECONDITION FOR ANY CONSTRUCTIVE DIALOGUE WITH THE OIL PRODUCERS. BUT CONSUMER SOLIDARITY GOES FURTHER THAN A CONCERTED APPROACH TO ENERGY CONSERVATION AND THE DEVELOPMENT OF ALTERNATIVE SOURCES OF ENERGY. IMPORTANT THOUGH THESE ITEMS ARE, THEIR EFFECT CAN ONLY BE LONGER TERM. WE NEED IN ADDITION CONSUMER SOLIDARITY ON THE CRUCIAL QUESTIONS OF PRICE, SUPPLY AND FINANCING. IT IS THESE ISSUES WHICH WILL BE AT THE HEART OF THE FORTHCOMING PRODUCER/CONSUMER DIALOGUE.

2. IF THAT DIALOGUE IS TO BE FRUITFUL, IT MUST DEAL WITH THE EFFECTS OF THE OIL/MONEY PROBLEM ON ALL THE COUNTRIES

INDUSTRIALIZED CONSUMERS WITH SMALL OR NO OIL DEFICITS. THE MECHANICS OF DEALING WITH THE FINANCING PROBLEM CAN BE SETTLED LATER. NO DOUBT THE PRIVATE BANKING SYSTEM WILL ALSO MAKE A CONTRIBUTION TOWARDS DEALING WITH THIS PROBLEM.

3. BUT, AS THE KISSINGER PROPOSALS RECOGNIZE, THE CONSUMERS MUST HAVE A COMMON STRATEGY WHICH EMBRACES ALL THE INTERRELATED ISSUES OF PRICE, SUPPLY AND FINANCING. WITH SUCH A STRATEGY WE CAN BE REASONABLY HOPEFUL THAT THE DIALOGUE BETWEEN CONSUMERS AND PRODUCERS WILL IN DUE COURSE LEAD TO A SETTLEMENT BASED ON MUTUAL INTERDEPENDENCE AND THE INTEREST WHICH ALL OF US SHARE IN A PROSPEROUS WORLD ECONOMY. WITHOUT SUCH A STRATEGY, THERE WILL BE A COMPETITIVE SCRAMBLE AMONG THE CONSUMERS WHICH CAN ONLY LEAD TO RECESSION AND PERMANENT DAMAGE TO THE PROSPERITY OF THE WHOLE WORLD. THE RECENT 5-FOLD INCREASE IN THE PRICE OF OIL, WHICH HAS MADE THE OIL/MONEY PROBLEM SO INTRACTABLE, HAS ALSO GREATLY AGGRAVATED OUR DOMESTIC LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 03457 01 OF 03 061941Z

TIC INFLATION. THERE IS NO EASY ANSWER TO THE PROBLEM OF INFLATION AND CERTAINLY NO MAGIC SHORT-CUT WHICH WE HAVE MISSED TOWARDS A SOLUTION. HE ALSO BELIEVED VERY STRONGLY THAT THE GOVERNMENT'S APPROACH, BASED ON THE SOCIAL CONTRACT, IS THE RIGHT APPROACH. BUT WHATEVER OUR DETERMINATION AND SUCCESS IT WOULD ONLY BE REALISTIC TO ACKNOWLEDGE THAT WE SHALL BE FACED FOR SOME YEARS WITH SOME DEGREE OF INFLATION. WE CANNOT IN THIS PERIOD AFFORD

TO POSTPONE DEALING WITH THE PROBLEMS GENERATED BY INFLATION. ONE OF THE MOST IMPORTANT OF THESE IS INVESTMENT.

4. GENERAL FACTORS WHICH MAKE FOR FINANCIAL STRINGENCY DO NOT AFFECT THE PUBLIC SECTOR. THE VOLUME AND DIRECTION OF PUBLIC SECTOR INVESTMENT IS ESSENTIALLY UNDER THE GOVERNMENT'S OWN CONTROL AND THE GOVERNMENT CAN ADJUST ITS POLICIES SO AS TO MAINTAIN OR INDEED INCREASE PUBLIC SECTOR INVESTMENT IN REAL TERMS EVEN WHEN INFLATION IS SEVERE.

5. BUT INVESTMENT IN THE PRIVATE SECTOR IS THE RESULT OF THOUSANDS OF INDIVIDUAL DECISIONS AND OF THE OPERATION OF MECHANISMS AND INSTITUTIONS WHICH HAVE BEEN DEVELOPED OVER

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 03457 02 OF 03 061944Z

63

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

FEA-01 ERDA-05 AID-05 CEA-01 CIEP-01 COME-00 EB-07

FPC-01 INT-05 OMB-01 SAM-01 OES-03 STR-01 TRSE-00

FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 NEA-09 /116 W

----- 054136

R 061926Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8993

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY TOKYO

AMEMBASSY BERN

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 02 OF 03 LONDON 03457

MANY YEARS. BUT THESE MECHANISMS ARE DESIGNED FOR A SITUATION IN WHICH PRICES ARE BROADLY STABLE. THEY NEED TO BE ADAPTED WHEN THERE IS INFLATION. THIS IS PARTLY BECAUSE THE BASIC ATTITUDES OF THOSE WHO MAKE INVESTMENT DECISIONS AND THOSE WHO SUPPLY CREDIT FOR INDUSTRY, ARE STILL THOSE APPROPRIATE TO A WORLD OF STABLE PRICES. FOR EXAMPLE THE FACT THAT A FIRM'S ASSETS HAVE DOUBLED IN VALUE THROUGH INFLATION DOES NOT NECESSARILY CONVINCE EITHER THE FIRM THAT IT IS SAFE TO BORROW TWICE AS MUCH AS BEFORE FOR INVESTMENT OR THE BANK THAT IT IS SAFE TO LEND TWICE AS MUCH AS BEFORE. IT DOES NOT HELP TO KNOW THAT THE RATE OF INTEREST ONE HAS TO PAY IS NEGATIVE IN REAL TERMS IF ONE GOES BANKRUPT BECAUSE ONE CANNOT PAY IT.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 03457 02 OF 03 061944Z

6. SO THE PRIVATE SECTOR NEEDS TO ADAPT ITS THINKING AND ITS FINANCIAL MECHANISM TO THE REALITIES OF THE PRESENT INFLATIONARY SITUATION, SO AS NOT TO FRUSTRATE INVESTMENT. AND THE GOVERNMENT IS PLAYING ITS PART IN THIS. GREAT CREDIT IS DUE TO THE GOVERNOR OF THE BANK OF ENGLAND FOR HIS INITIATIVE IN EXPANDING FINANCE FOR INDUSTRY AS A VEHICLE FOR CHANNELLING PRIVATE MONEY INTO PRIVATE SECTOR INVESTMENT. HE REGARDED AS WHOLLY MISPLACED SOME OF THE CRITICISMS OF THIS INITIATIVE WHICH HAVE RECENTLY APPEARED IN THE FINANCIAL PRESS. THOSE FOR EXAMPLE ABOUT THE RISK OF TOO HIGH A GEARING HAVE BEEN OVERSIMPLIFIED. THE MORE WE VALUE THE ROLE OF THE PRIVATE SECTOR, THE MORE WE NEED TO ENSURE THAT ITS MECHANISMS ARE SUFFICIENTLY UP-TO-DATE TO ENABLE IT TO PLAY ITS ROLE. IF THERE IS NO SUCH ADAPTATION, THEN THE PRIVATE SECTOR WILL BE LESS VIGOROUS AND THIS WILL BE BAD FOR IT AND FOR US ALL. THE MORE INVESTMENT THERE IS, THE STRONGER DOES THE SOCIAL CONTRACT BECOME AS AN INSTRUMENT AGAINST INFLATION.

7. A SIMILAR READINESS TO ADAPT TO INFLATION IS NEEDED IN A FIELD WHICH IS RELATED TO INVESTMENT--THE TREATMENT OF STOCK APPRECIATION FOR TAX PURPOSES. WE SHALL BE ABLE TO SEE THE PROBLEMS MORE CLEARLY WHEN WE HAVE THE SANDILANDS REPORT ON INFLATION ACCOUNTING. BUT THE CHANCELLOR OF THE EXCHEQUER HAS ALREADY ACTED IN HIS NOVEMBER BUDGET IN ADVANCE OF THE REPORT, BECAUSE THE ISSUE WAS SO URGENT. THE CITY AND INDUSTRY HAVE FAILED TO RECOGNIZE THE MAGNITUDE OF THIS HELP WHICH THE CHANCELLOR HAS GIVEN THEM IN COPING WITH INFLATION.

8. IN THIS AND IN OTHER WAYS THE GOVERNMENT IS SHOWING ITS DETERMINATION THAT OUR ECONOMY SHALL BE SUCCESSFUL.

WE HAVE A DIFFICULT PERIOD AHEAD OF US. THERE ARE NO  
GROUNDS FOR COMPLACENCY. BUT THERE ARE ALSO QUITE CERTAIN  
LY NO GROUNDS FOR DESPAIR. MANY OF THE REPORTS ABOUT  
BRITAIN ARE PURE CARICATURE BECAUSE THEY PICK OUT ONLY OUR  
POINTS OF WEAKNESS. BUT OUR POINTS OF STRENGTH ARE WHAT  
THEY HAVE ALWAYS BEEN. IN THE DIFFICULTIES OF THIS NEW  
ERA WE SHALL GO ON SHOWING OUR FORMIDABLE QUALITIES OF RE-  
SOURCEFULNESS, HONESTY OF PURPOSE AND SOCIAL COHESION. WE  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 03457 02 OF 03 061944Z

BRING THESE QUALITIES TO BEAR NOT ONLY ON OUR DOMESTIC  
PROBLEMS BUT ON OUR RELATIONS WITH OTHER COUNTRIES, WHERE  
A FRAGILE AND TROUBLED WORLD GIVES THEM A NEW VALUE.

9. LEVER DEPARTED FROM HIS TEXT FREQUENTLY, STRESSED FROM  
THE BEGINNING THAT THE LEADERSHIP OF THE LABOUR GOVERNMENT  
IS COMPOSED OF OFFICIALS WITH DIFFERING VIEWS WHO EXPRESS  
THEIR DIFFERENCES. REFERRING TO THE SOCIAL CONTRACT, HE  
SAID A FEW UNION LEADERS DO NOT ACKNOWLEDGE IT; A FEW

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 03457 03 OF 03 061947Z

63

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

FEA-01 ERDA-05 AID-05 CEA-01 CIEP-01 COME-00 EB-07

FPC-01 INT-05 OMB-01 SAM-01 OES-03 STR-01 TRSE-00

FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 NEA-09 /116 W

----- 054189

R 061926Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8994

INFO AMEMBASSY PARIS  
AMEMBASSY BONN  
AMEMBASSY TOKYO  
AMEMBASSY BERN  
AMEMBASSY ROME  
USMISSION OECD PARIS  
USMISSION EC BRUSSELS  
AMCONSUL HONG KONG

LIMITED OFFICIAL USE SECTION 03 OF 03 LONDON 03457

UNION LEADERS DO NOT FAVOR THE DEMOCRATIC PROCESS. THESE PEOPLE ARE KNOWN, AS ARE THEIR VIEWS. IN GENERAL, THE TUC LEADERSHIP HAS BEEN SINCERE IN WORKING TO MAKE IT A SUCCESS. IF INFLATION LOOKS BAD WITH THE SOCIAL CONTRACT, IT WOULD BE WORSE WITHOUT IT. END UNCLASSIFIED.

BEGIN LIMITED OFFICIAL USE. 10. COMMENT: BASED ON OPINIONS EXPRESSED TO FINANCIAL ATTACHE; LEVER'S AUDIENCE WAS NOT COMPLETELY CONVINCED THAT LEADERSHIP AND ESPECIALLY LEFT WING OF LABOUR PARTY FULLY SHARE LEVER'S VIEWS ON NEED FOR STRONG PRIVATE SECTOR; BUT WERE HOPEFUL HIS REMARKS ARE HARBINGER OF FUTURE FINANCIAL ASSISTANCE TO INDUSTRY IF NECESSARY WITHOUT SOCIALIST STRINGS ATTACHED. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 03457 03 OF 03 061947Z

11. MOST OF SUBSTANCE OF EUROBOND MARKET DISCUSSION ALREADY REPORTED IN LONDON 2395, EUROBOND MARKET PROSPECTS FOR 1975. BOTH MICHAEL VON CLEMM OF WHITE WELD AND MINOS ZOMBANAKIS OF FIRST BOSTON CITED GROWING UNCERTAINTIES IN EUROMARKET LENDING TO GOVERNMENTS, WITH ITALY BEING PRAISED FOR ITS DOMESTIC MEASURES TAKEN TO DEAL WITH BALANCE OF PAYMENTS, AND U.K. CRITICIZED FOR CONTINUED BORROWING IN HOPES OF PAYING IT BACK LATER, BUT WITH LITTLE IMPROVEMENT IN BALANCE OF PAYMENTS. IN PART BECAUSE OF MAGNITUDE OF FLOWS, MIDDLE EASTERN FUNDS WERE EXPECTED TO BE PLACED DIRECTLY IN GOVERNMENT SECURITIES, BILATERAL DEALS, PRIVATE PLACEMENTS, RATHER THAN IN SPECIFIC, SMALLER PUBLIC EUROBOND FLOTATIONS. FINANCIAL TIMES MARCH 6-7 ISSUES WILL CARRY SUMMARY OF PROCEEDINGS.

RICHARDSON

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, SPEECHES, ECONOMIC TRENDS, PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 MAR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975LONDON03457  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750079-0204  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750377/aaaacran.tel  
**Line Count:** 325  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 15 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <15 APR 2003 by ShawDG>; APPROVED <16 APR 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** HAROLD LEVER ON OIL PRICE INCREASE AND U.K. ECONOMY; EUROMARKET TRENDS  
**TAGS:** EFIN, UK, (LEVER, HAROLD)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006